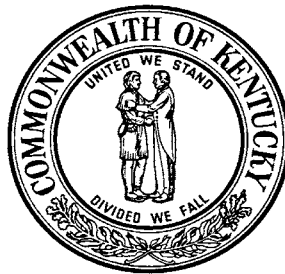


**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

September 20, 2002



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EDWARD B. HATCHETT, JR.
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To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Joseph Grieshop, Harlan County Judge/Executive

Honorable Steve Duff, Harlan County Sheriff

Members of the Harlan County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Harlan County Sheriff's Settlement - 2001 Taxes and 2001 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Harlan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

September 20, 2002

Berger & Ross, PLLC
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES AND 2001 UNMINED COAL TAXES

September 20, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement – 2001 Unmined Coal Taxes for Harlan County Sheriff as of September 20, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$6,539,306 for the districts for 2001 taxes. Sheriff distributed taxes of \$6,259,637 to the districts for 2001 Taxes. Taxes of \$16 are due to the districts from the Sheriff and refunds of \$996 are due to the Sheriff from the taxing districts.

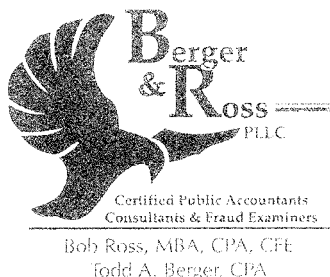
Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2001 TAXES	3
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES	5
NOTES TO FINANCIAL STATEMENTS	6
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9



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Association of Tax Professionals (ATP)
Association of Tax-Exempt Organizations (ATO)
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Association of Tax-Exempt Organizations (ATO)

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Joseph Grieshop, Harlan County Judge/Executive

Honorable Steve Duff, Harlan County Sheriff

Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement - 2001 Taxes and Sheriff's Settlement - 2001 Unmined Coal Taxes as of September 20, 2002. These tax settlements are the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid as of September 20, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Joseph Grieshop, Harlan County Judge/Executive

Honorable Steve Duff, Harlan County Sheriff

Members of the Harlan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 29, 2002

HARLAN COUNTY
STEVE DUFF, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

September 20, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,116,785	\$ 593,462	\$ 1,653,863	\$ 635,481
Tangible	342,722	156,459	350,531	355,659
Intangible	-	-	-	62,533
Fire Acreage	7,154	-	-	-
Oil and Gas	1,552	824	2,746	883
Limestone, Sand, and Gravel	473	251	836	269
Total Per Sheriff's Official Receipt	\$ 1,468,686	\$ 750,996	\$ 2,007,976	\$ 1,054,825
<u>Other Taxes and Charges</u>				
Bank Shares	42,158	-	-	-
Correcting Erroneous Assessments	465	240	757	381
Franchise Corporation	283,958	133,289	282,592	-
Penalties & Interest	15,654	8,251	23,762	9,323
Gross Chargeable to Sheriff	\$ 1,810,921	\$ 892,776	\$ 2,315,087	\$ 1,064,529
<u>Credits</u>				
Exonerations	\$ 38,774	\$ 18,618	\$ 49,322	\$ 35,325
Delinquents	92,611	48,566	135,714	55,696
Unpaid Franchise	5,935	2,712	5,069	-
Discounts	21,112	10,280	26,800	15,253
Total Credits	\$ 158,432	\$ 80,176	\$ 216,905	\$ 106,274
Net Tax Yield	\$ 1,652,489	\$ 812,600	\$ 2,098,182	\$ 958,255
Less: Commissions*	70,518	34,535	83,927	41,013
Taxes Due Districts	\$ 1,581,971	\$ 778,065	\$ 2,014,255	\$ 917,242
Taxes Paid	1,579,846	778,070	2,095,096	914,863
Less: Refunds (Current & Prior Years)	2,115	986	3,085	2,379
Add: Commission Refunds From School	-	-	83,927	-
Taxes Due Districts (or Refund Due Sheriff)		**		
as of Completion of Fieldwork	\$ 10	\$ (991)	\$ 1	\$ -

* and ** See Page 4

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
 STEVE DUFF, SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 September 20, 2002
 (Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	3,413,344
	4% on	\$	2,098,182
**Special Taxing Districts:			
Library District		\$	2
Health District			2
Extension Service District			(996)
Soil Conservation District			<u>1</u>
Due Districts or (Refund Due Sheriff)		\$	<u><u>(991)</u></u>

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
STEVE DUFF, SHERIFF
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES

September 20, 2002

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
<u>Charges</u>				
Sheriff's Official Receipt for				
Unmined Coal	\$ 259,946	\$ 138,129	\$ 460,072	\$ 147,919
Additional Bills	2,512	1,360	4,932	1,625
Omitted Bills	17,740	9,444	32,185	10,747
Penalties	1,122	597	2,046	702
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 281,320	\$ 149,530	\$ 499,235	\$ 160,993
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	\$ 11,801	\$ 6,271	\$ 20,887	\$ 6,715
Delinquents	3,851	2,063	7,524	2,747
Discounts	2,955	1,571	5,231	1,682
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 18,607	\$ 9,905	\$ 33,642	\$ 11,144
	<hr/>	<hr/>	<hr/>	<hr/>
Net Tax Yield	\$ 262,713	\$ 139,625	\$ 465,593	\$ 149,849
Less: Commissions*	11,165	5,933	18,624	6,369
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Taxes Due Districts	\$ 251,548	\$ 133,692	\$ 446,969	\$ 143,480
Taxes Paid	251,548	133,692	465,593	143,480
Add: Commission Refunds From School	-	-	18,624	-
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due Districts (or Refund Due Sheriff)				
as of Completion of Fieldwork	\$ -	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>
*Commissions:	4.25% on	\$ 552,187		
	4% on	\$ 465,593		

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS

September 20, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statements. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 20, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
September 20, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2001 through August 27, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 18, 2001 through August 27, 2002.

Note 4. Interest Income

The Harlan County Sheriff earned \$7,495 as interest income on 2001 taxes. As of October 29, 2002, the Sheriff is due from his fee account \$3 in interest, and the Sheriff owes the Common School \$43 in interest.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$47,204 of 10% add-on fees allowed by KRS 134.430(3). As of October 29, 2002, the Sheriff owes \$54 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Harlan County Sheriff collected \$1,288 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Association of Government Auditors
Chartered Accountants Association
National Association of Accountants
National Association of Tax Examiners
Government Auditing Standards Board

To the People of Kentucky

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Honorable Steve Duff, Harlan County Sheriff

Members of the Harlan County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the Harlan County Sheriff's Settlement - 2001 Taxes and Sheriff's Settlement - 2001 Unmined coal Taxes as of September 20, 2002, and have issued our report thereon dated October 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement - 2001 Taxes and 2001 Unmined Coal Taxes as of September 20, 2002 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 29, 2002

